

REMARKS | State Treasurer Denise L. Nappier**January 3, 2018**

Good morning and thank you for being here. I am announcing today that I have decided not to seek a sixth term as Connecticut State Treasurer this year. It has been my privilege and honor to serve the citizens of Connecticut and to lead an Office that has consistently demonstrated the highest standards of professionalism and integrity, while contributing to the well-being of Connecticut's residents and businesses.

During the remainder of my term, I will continue to do my very best to ensure effective financial management of the monies entrusted to this Office, as I have done throughout my public career. I reached this decision filled with gratitude for the confidence that the people of Connecticut have shown in my leadership of this Office. I have never broken faith with that trust.

First and foremost, I want to acknowledge the contributions of so many that make the exceptional work of the Treasury possible.

- The independent Investment Advisory Council has demonstrated continued vigilance in its oversight of the investment program of the Connecticut Retirement Plans and Trust Funds. The Council has been unwavering in its service to the 219,000 participants and beneficiaries of the CRPTF and the taxpayers and residents of our state. I am grateful for the high caliber of public service provided by each and every member of the IAC.
- I also commend the professional and hard-working staff at the Connecticut Treasury, along with our service providers, for their utmost care and diligence in the conduct of our state's Treasury financial management business. The women and men of the Treasury have done an extraordinary job during a time of diminishing resources. I appreciate their dedication, and the determination they bring to serving the people of Connecticut.

Some of you may have been here back in 1999 when I took office, after having defeated the incumbent on Election Day. For those who were not, it is important to remember the office that I walked into, and the dramatic turn-around that took place under my leadership and with the team that I put in place.

Much of the first year was spent working closely with federal investigators who were painstakingly examining the misdeeds of my predecessor and his associates. As their scandalous acts were brought to light, we rolled up our sleeves and got to work developing a comprehensive Treasury Reform plan to ensure that professionalism would replace personal greed in the business of the Treasury.

It was a time like no other in the history of this Office. In the end, my predecessor went to prison in the kickback and corruption scandal, and his was one of more than a half-dozen convictions and guilty pleas.

In response, my office was the architect of the comprehensive Treasury Reform Act of 2000, which included:

- eliminating finders' fees and political influence peddling;**
- establishing greater transparency in pension investments;**
- formalizing the role of chief investment officer to ensure professional management of assets, and the role of the Investment Advisory Council to provide meaningful oversight in the hiring of investment advisors and adoption of an investment policy.**

It was, and remains, an effective system of checks and balances, accountability, proper due diligence, risk management, transparency, and full disclosure at every step of the investment decision-making process, with an emphasis on *how* decisions are made.

The result, nearly two decades later, is clear: we restored integrity and public confidence in the Office of the State Treasurer.

Those bold and decisive actions set the standard for how we would tackle areas where systemic change was long overdue, and how we would strive to break new ground, embrace innovation and use the Treasury as a means of improving the state government's financial health and the lives of the people of our state.

For nearly 19 years, this office has promoted the protection of shareholder value and the rights of consumers and workers by strengthening accountability and pursuing prudent and responsible business practices. The results are striking.

What has been equally important to me has been using the financial clout of the Treasury to expand economic opportunity not just for a few, but for all people. Every individual should be able to climb the ladder of success as high as their talents, their determination, and their energy can take them. And as a society, we should accept nothing less.

If I were to take just a few minutes to recap each year, we would be here for an hour. Even if I limited my comments to only one minute for each year, it would take 20 minutes. So I will try to do so in less time, but that does not in any way lessen the importance of the work that was done, or the impact of our efforts, then and now, on the people of our state.

I believe the record speaks for itself.

Each and every year of my administration, the Treasurer's Office has earned recognition for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada – the highest form of recognition for a government of its financial management.

The Treasurer's Office was ranked first in the nation for pension fund management with a grade of "A" by the Center for Public Integrity, [as part of its 2015 State Integrity review]. We received high marks for the transparency of the management of our pension funds, effectiveness of the laws and regulations governing conflicts of interest, and citizen access to disclosures and documents.

As State Treasurer, my core business has always been to ensure that we maximize risk adjusted investment returns on the state's funds. And that we work to reduce the cost of government in the management of Treasury business.

That applies to everything from the investment of more than \$50 billion in short- and long-term funds to a wide range of "nuts and bolts" operations that make up so much of the day-to-day work of the Treasury. We continuously update and upgrade our systems, always with an eye toward innovation and improvement. As one example, we have eliminated more than 200 bank accounts used by the State, increasing efficiency and lowering fees.

Each dollar my administration has saved is a dollar that the State didn't have to collect from taxpayers. Quite literally, every extra dollar we earn that exceeds our benchmark or financial goal relieves some of the pressure that our state and local government budgets are under, and a worthy program that might otherwise have been cut receives adequate support. We never lost sight of our overriding goal -- to do right by the people of Connecticut.

The numbers reflect that objective, that commitment, and that result:

- Connecticut's pension plans and trusts have grown from less than \$19 billion to more than \$34 billion during my administration. That

is an all-time high. That number takes into account investment gains of nearly \$24 billion and is even more remarkable when you consider that we have paid \$25.2 billion in benefits, of which \$9.2 billion was in excess of the contributions received by the pension funds. Most recently, for fiscal year 2017, Connecticut had one of the ten best investment performances among its peers in the nation. In fact, during the length of my administration, we have achieved investment returns that meet or exceed the average performance of our peers while taking on less risk.

- Continuously during my administration, in legislative testimony, in direct conversations with legislators, and in media events and op-eds, I have sounded the alarm on the growing unfunded pension liabilities as one of the most chronic and pressing issues facing the state. What I said from day one remains true today: “there is no investment portfolio composition that could generate investment returns sufficient to compensate for reduced contributions, lost investment opportunity and sustained market volatility.”

It simply is not possible, I said early and often, to earn our way out of the hole continually dug by legislatures ignoring actuarial recommendations. I will continue to raise flags of

caution if the legislature considers actions that would set us back.

- More recently in 2008, we took steps to put the Teacher's Retirement Fund on firm fiscal footing. We have saved taxpayers an estimated \$1.3 billion by leading efforts to reduce the cost of unfunded pension liability through the sale of pension obligation bonds, and, more importantly, we instilled discipline by requiring the State to make its actuarially recommended contributions. My Office will continue to look to find innovative ways to offer the State some additional relief and reduce the future burden on taxpayers.
- For 19 consecutive years, following the enactment of reforms my administration made with the assistance of a Blue Ribbon Commission we formed, the Treasury's Second Injury Fund – a form of workers' compensation -- has not increased the assessment rate for Connecticut businesses - the longest period without an assessment rate increase in the more than 70-year history of the Fund. As a result, Connecticut businesses and agencies in the private and public sectors have realized an estimated \$1.3 billion in savings – including \$103 million in projected savings for Fiscal Year 2018 – without sacrificing benefits rightfully due injured workers.

- The ingenuity of the Treasury has assisted in keeping debt service costs down, relatively speaking. Debt transactions in the form of refinancings and defeasances through Fiscal Year 2017 have resulted in savings to taxpayers of more than \$1.2 billion over the life of the bonds.
- Our Short-Term Investment Fund's superior performance, year after year, has earned participating state and local governments \$208 million in additional interest income because we have consistently exceeded our benchmark. And we have maintained a triple A credit rating, which is the highest possible.
- The Treasury's asset recovery and loss prevention program, which was, under my administration, the first of its kind in the history of this Office, has recovered approximately \$1.4 billion, by initiating the filing of claims and taking a measured approach to securities fraud and class action suits. Here is just one example. We were the lead plaintiff in a class action suit against Waste Management Inc., and recovered \$457 million for investors in 2001 – then the third largest securities fraud class action settlement in U.S. history.
- Beyond the dollars – which are substantial – this Office has provided national leadership with respect to asset recovery, encouraging other public pension funds to view asset recovery as a fiduciary

responsibility which it is under pension law. And virtually all public pension funds have now done so.

Nearly 15 years ago, the Connecticut Treasury co-sponsored the first-ever Investor Summit on Climate Risk, held at the United Nations, convening hundreds of investor, business and capital market leaders to highlight the financial risks and opportunities posed by climate change. Since that landmark event, the Summit, held biennially, has grown globally in interest and impact – from 10 members with \$600 billion in assets under management in 2003 to 110 investors with \$13 trillion in assets in 2016. The first Summit, and the most recent, both included an address by the U.N. Secretary General. This year's Summit is coming up in just a few weeks.

We also established an overall administrative policy – the first of its kind – that recognized the value to the Treasury's investments and our other core functions in tapping from a diverse pool of prospective vendors to compete for Treasury business. Since that time, my office has had an unsurpassed record of doing business with Connecticut-based firms and minority-, women-owned, and emerging firms as well as longstanding majority-owned firms with a demonstrated commitment to improving diversity and inclusiveness.

- In the Pension Funds Management Division, the Connecticut Horizon Fund is one such example that provides an opportunity for small and emerging funds to compete and earn a share of the Treasury's investment advisory business. The CHF is now a \$1.3 billion public and private markets program.
- In the debt management arm of the Treasury, we've made similar progress in the diversification of our roster of vendors. Two noteworthy service providers are Siebert Cisneros Shank, the first woman-owned and African American-owned firm and Ramirez & Co. the first Hispanic-owned firm in the history of Connecticut to serve in the influential, lucrative position of senior manager for our State bond offerings.

Let me now highlight one area that I made a priority from the moment my first term began, with the redevelopment and launch of a corporate governance program that was both comprehensive and ground-breaking. It was the road less traveled.

Nearly 20 years later, that road is crowded and active. In fact, at one conference not too long ago, I heard one of my colleagues, a State Treasurer from a nearby state, mention that when it came to corporate governance, his plan was to use the "Nappier playbook."

Here's why. For the first time, the Connecticut Treasury became a shareholder activist, demanding accountability by companies the state invests in to adhere to the highest standards of sustainable or responsible corporate governance.

There was no doubt in my mind that we had a fiduciary obligation to speak up and stand firm, to urge companies to act in the best interests of their investors – including Connecticut, and to encourage policies on a range of issues – traditional and non-traditional - that would contribute to their bottom lines and ultimately ours as well.

And so we began, establishing proxy-voting guidelines for the first time in state history, and getting on the field of play – doing so in a manner that placed us on the cutting edge on a number of issues and our achievements with our portfolio companies are not inconsequential.

As the first public pension fund to file climate change resolutions, we secured an agreement from American Electric Power – the largest emitter of CO₂ in the country -- to report on its effort to combat global warming. That led to AEP's first-in-the-industry report to investors on climate risk, a step followed first by others in the industry, and then by leading firms in other key industries.

- **At Walt Disney Company, we engaged in constructive dialogue urging Disney to separate audit and consulting services, which had been handled by the same accounting firm. I appeared at the 2002 Disney annual meeting held in Hartford to advocate for the new policy. The then Chairman, Michael Eisner, reversed his previously stated position and agreed. We then urged other companies to follow Disney's lead and more than a dozen prominent companies did so.**
- **At Stanley Works, we voiced concern over the impact on shareholder rights of a planned reincorporation to Bermuda, provided information about a tainted shareholder vote, and urged then Attorney General Blumenthal to go to court to block the move. We also expressed concerns to the Securities and Exchange Commission and called for a formal reconsideration by the company board. The company finally dropped its reincorporation plan, within months of the initial vote, and stayed in Connecticut.**
- **And we have vigorously shared our views with the Securities and Exchange Commission, as its oversight has ebbed and flowed through the years, to emphasize the critical importance of its work in protecting both institutional and individual investors and consumers of financial services.**

- Just this past summer, a shareholder resolution that we introduced at Vista Outdoor, calling for the annual election of all members of the Board of Directors, was supported by 94 percent of shares voted.

There have been other landmark accomplishments in corporate governance, and I won't come close to listing them all here today. The issues we fought for include:

- establishing independent audit committees on corporate boards,
- separating the positions of CEO and Board Chair,
- eliminating excessive compensation for failure by linking pay to company performance and giving shareholders a non-binding "Say on Pay,"
- use of independent compensation consultants to the board, and
- narrowing the pay gap between CEOs and other top executives.

We have also advocated for greater diversity among board members, particularly in light of increasing evidence demonstrating that diversity makes a positive difference in company performance. The numbers are particularly compelling regarding women on corporate boards.

And we urged companies to refrain from engaging in international business practices that condone human rights violations, including genocide, by pursuing an orderly divestment of state investments in companies that fail to meet human rights standards, and our call for responsible behavior.

Our efforts were always based well-informed on research, investigative reporting and mounting academic evidence. For us, the data was persuasive, and our leadership on these issues, in many ways, was both long overdue and ahead of its time. Time and again, we were there at the beginning of issues that would only grow, and the strength of our efforts, and the alliances we built, got results.

Now, let me turn the page from corporate governance.

You've probably heard me urge the people of Connecticut to "Check CHET Out." If you have done so, here's what you would have found:

- The Connecticut Higher Education Trust has grown from \$18.5 million in assets and 4,000 accounts when I took office, to more than \$3.3 billion in assets and more than 140,000 accounts today. In my first year in office we lowered fees, and we have developed additional program enhancements in the years since, including a tax deduction instituted a decade ago.

- **More than \$1.6 billion in qualified withdrawals—beyond the \$3.3 billion in assets today -- have been taken to cover college costs for approximately 47,000 students.**
- **The CHET Advance Scholarship program, which we introduced in 2013, has awarded \$2.5 million in scholarships to 1,000 students. This program is privately financed, an initiative that my administration negotiated with our third party vendors, TIAA and The Hartford.**
- **The CHET Baby Scholars program, launched the following year in 2014, in collaboration with Governor Malloy, has enrolled more than 6,400 babies so far and has contributed \$1.5 million to their CHET accounts. Those accounts have grown to more than \$16 million in assets, helping families prepare for when their CHET baby scholars head to college, years from now.**
- **And more than 31,000 elementary and middle school students have participated in the CHET Dream Big! Competition. The program, which was started in 2007, has made contributions to more than 700 CHET accounts, helping to make those dreams a reality.**

- Just last month, CHET Direct was recognized as one of the Top Five 529 college savings plans in the nation.

Let me briefly mention some of our other initiatives, focused on expanding economic opportunity, especially for average citizens and those most in need:

- We built a coalition of housing, business, community and municipal organizations to establish a \$100 million Housing Trust Fund for Growth and Opportunity, aimed at increasing affordable quality housing for working families in Connecticut – the first of its kind in the country. We view the housing trust fund as a key element for economic growth and opportunity, and to attract and retain skilled workers such as police, firefighters, teachers, nurses and young professionals to afford to live where they work.
- We spearheaded creation of a statewide Individual Development Account matched savings program to help thousands of low-income families learn the principles of personal financial management and save for continuing education a first time home purchase or business start-up. IDAs, an asset building program, earned legislative approval as well as state, federal and private sector funding.

- When Bank of America merged with Fleet Bank, and earlier when Fleet and BankBoston merged, my office, collaborating with then-Attorney General Blumenthal, negotiated increases in the banks' community reinvestment in Connecticut, worth hundreds of millions of dollars, some of which was used to boost Connecticut's IDA and financial education initiatives and assist state residents and small businesses in getting a foothold on the ladder of improving their financial health.
- We led the effort, working with the legislature, to enact Connecticut's first-in-the-nation comprehensive Gift Card Law, which helps consumers by prohibiting expiration dates and non-use fees on gift cards sold in the state.
- We served as a catalyst and advocate for financial education, including the establishment of the annual Money Conference for Women, now in its 16th year, and the Youth Financial Education Conference. And, we have a menu of financial education initiatives on the Treasury web-site for young people and adults. The first of its kind in Treasury history and state Treasury's across the country.

You are probably also very familiar with what we call “The Big List” – unclaimed assets that we seek to reunite with rightful owners. During my five terms in office, a total of \$653 million in unclaimed property has been returned to nearly 300,000 individuals, businesses, organizations, and non-profits. And last January alone, our efforts on-line led to the largest number and dollar amount of claims ever in one month in the program’s 83-year history.

Among our initiatives, in 2002, for the first time in state history, we reached a reciprocal agreement with the government of Puerto Rico to assist in the return of assets to rightful owners in Puerto Rico and Connecticut.

I could continue, talking about unclaimed property, and about the achievements throughout the Treasury, but let me stop here.

In conclusion, let me again express my appreciation to the people of Connecticut for their continuing votes of confidence, and to every individual who had a role in the accomplishments of this office since January 1999.

We have done what I said we would do when I first announced my interest in serving as State Treasurer. And as a result, I believe that Connecticut residents have been, as I said in that first campaign, “happier with Nappier.”

Thank you very much.